

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

IN THE MATTER OF THE)	
APPLICATION OF CHESAPEAKE)	
UTILITIES CORPORATION FOR)	
APPROVAL OF A CHANGE IN ITS GAS)	PSC DOCKET NO. 16-0908
SALES SERVICE RATES (“GSR”) TO BE)	
EFFECTIVE NOVEMBER 1, 2016 (FILED)	
SEPTEMBER 1, 2016))	

DIRECT TESTIMONY OF

JEROME D. MIERZWA

ON BEHALF OF THE

**STAFF OF THE DELAWARE PUBLIC SERVICE COMMISSION
AND DIVISION OF THE PUBLIC ADVOCATE**

February 22, 2017

EXETER

ASSOCIATES, INC.

10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

CHESAPEAKE UTILITIES CORPORATION
DOCKET NO. 16-0908
DIRECT TESTIMONY OF JEROME D. MIERZWA

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I. STATEMENT OF QUALIFICATIONS

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS**
2 **ADDRESS?**

3 A. My name is Jerome D. Mierzwa. I am a Principal and Vice President of Exeter Associates,
4 Inc. ("Exeter"). My business address is 10480 Little Patuxent Parkway, Suite 300,
5 Columbia, Maryland 21044. Exeter specializes in providing public utility-related consulting
6 services.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
8 **EXPERIENCE.**

9 A. I graduated from Canisius College in Buffalo, New York in 1981 with a Bachelor of
10 Science Degree in Marketing. In 1985, I received a Masters Degree in Business
11 Administration with a concentration in finance, also from Canisius College. In July 1986, I
12 joined National Fuel Gas Distribution Corporation ("NFG Distribution") as a Management
13 Trainee in the Research and Statistical Services Department ("RSS"). I was promoted to
14 Supervisor RSS in January 1987. While employed with NFG Distribution, I conducted
15 various financial and statistical analyses related to the company's market research activity
16 and state regulatory affairs. In April 1987, as part of a corporate reorganization, I was
17 transferred to National Fuel Gas Supply Corporation's ("NFG Supply's") rate department
18 where my responsibilities included utility cost of service and rate design analysis, expense
19 and revenue requirement forecasting, and activities related to federal regulation. I was also
20 responsible for preparing NFG Supply's Purchase Gas Adjustment ("PGA") filings and
21 developing interstate pipeline and spot market supply gas price projections. These
22 forecasts were utilized for internal planning purposes as well as in NFG Distribution's state
23 purchased gas cost review proceedings.

1 In April 1990, I accepted a position as a Utility Analyst with Exeter. In December
2 1992, I was promoted to Senior Regulatory Analyst. Effective April 1, 1996, I became a
3 Principal of Exeter. Since joining Exeter, my assignments have included evaluating the
4 gas purchasing practices and policies of natural gas utilities, utility class cost of service and
5 rate design analysis, sales and rate forecasting, performance-based incentive regulation,
6 revenue requirement analysis, the unbundling of utility services, and the evaluation of
7 customer choice natural gas transportation programs.

8 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY**
9 **PROCEEDINGS ON UTILITY RATES?**

10 A. Yes. I have provided testimony on more than 200 occasions in proceedings before the
11 Federal Energy Regulatory Commission (“FERC”), utility regulatory commissions in
12 Georgia, Illinois, Indiana, Louisiana, Maine, Massachusetts, Montana, Nevada, New
13 Jersey, Ohio, Pennsylvania, Rhode Island, Texas, Utah, and Virginia, as well as before this
14 Commission.

II. SCOPE AND PURPOSE OF TESTIMONY

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
16 **PROCEEDING?**

17 A. Exeter was retained by the Staff of the Public Service Commission (“Staff”) and the
18 Division of the Public Advocate (“DPA”) to review the Gas Sales Service Rate (“GSR”) application of Chesapeake Utilities Corporation (“Chesapeake” or “the Company”) and
19 evaluate the reasonableness of the Company’s gas procurement practices and policies. The
20 purpose of my testimony is to present findings and recommendations to the Commission
21 concerning the application and the Company’s ongoing gas procurement practices and
22 policies. Also testifying in this proceeding on behalf of Staff is Mr. Jason R. Smith. Mr.
23

1 Smith summarizes the Company's application and proposed rates and also addresses prior
2 GSR settlement agreements.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN CHESAPEAKE GSR**
4 **PROCEEDINGS?**

5 A. Yes. I have testified in each of Chesapeake's annual GSR proceedings since 2012.

6 **Q. IN PERFORMING YOUR REVIEW AND ANALYSIS, WHAT DATA**
7 **SOURCES DID YOU UTILIZE?**

8 A. I reviewed the Company's application, responses to discovery requests, and the Company's
9 2016 Long-Term Gas Supply and Demand Strategic Plan. I also reviewed information
10 provided in other Company proceedings before the Commission.

11 **Q. WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR**
12 **DIRECT SUPERVISION?**

13 A. Yes, I prepared this testimony.

III. CONCLUSIONS AND RECOMMENDATIONS

14 **Q. DID YOUR REVIEW OF CHESAPEAKE'S APPLICATION AND GAS**
15 **PROCUREMENT PRACTICES AND POLICIES IDENTIFY ANY ISSUES**
16 **OF CONCERN?**

17 A. No. My review generally found Chesapeake's gas procurement practices and policies to
18 be reasonable.

19 **Q. WERE THERE FACTORS THAT MAY HAVE REDUCED THE**
20 **POTENTIAL FOR ISSUES IN THIS PROCEEDING?**

21 A. Yes. The settlement approved in Chesapeake's 2015 GSR proceeding at Docket No.
22 15-1362 provided, among other things, that with respect to the Company's current Asset
23 Management Agreement ("AMA"), Chesapeake would either (1) reach an agreement with

1 Staff and DPA (“Settling Parties”) regarding a sharing mechanism to be used under an
2 AMA with the Company’s marketing affiliate Peninsula Energy Services Company,
3 (“PESCO”); or (2) use a Request for Proposal process to select another Asset Manager.
4 Pursuant to this provision, an agreement was reached with Chesapeake, Staff, and DPA
5 and approved by the Commission on October 6, 2016, regarding a sharing mechanism to
6 be used under an AMA with PESCO. This AMA addressed issues previously raised in
7 prior Chesapeake GSR proceedings, such as the recovery of costs associated with excess
8 upstream capacity reserved by Chesapeake. Under the negotiated AMA, the Company’s
9 excess upstream pipeline capacity will be released to PESCO.

10 **Q. ARE THERE ASPECTS OF THE SETTLEMENT AGREEMENT**
11 **APPROVED IN DOCKET NO. 15-1362 THAT YOU RECOMMEND BE**
12 **CONTINUED IN THIS PROCEEDING?**

13 A. Yes. I believe that there are several aspects of the settlement in Docket No. 15-1362 that
14 should be continued:

15 **Item 8.** The Company should continue to monitor the
16 level of its over/under collection balance to determine
17 whether a change in the methodology used to calculate its
18 GSR rate is necessary. The Company should hold quarterly
19 discussions with the Staff and DPA, at their request, for the
20 purpose of review the Company’s over/under collection
21 balances, hedging program, and other areas of interest to the
22 Settling Parties, such as what measure could be
23 implemented in the company’s annual GSR filing to reduce
24 the volatility of GSR rates caused by the amortization of gas
25 cost over-and-under collections

26 **Item 9.** The Company should continue to utilize its
27 annual Long-Term Supply and Demand Strategic Plan
28 (“Supply Plan”) as a mechanism by which to notify the
29 Settling Parties of the need for all new capacity additions.
30 When the Company needs to acquire capacity that was not
31 previously identified in its most recent Supply Plan, the
32 Company should provide the information agreed to in the
33 Settlement Agreements to PSC Docket Nos. 08-296F and

1 09-3989F regarding Eastern Shore Natural Gas Company
2 (“ESNG”) capacity acquisitions and to continue to provide
3 this information for potential upstream capacity additions as
4 well. The Company should provide this information for
5 both ESNG and upstream capacity on a confidential basis
6 only. The Company should continue to review its design
7 day forecasting methodology each year at the time the
8 Supply Plan is developed to ensure its validity. The
9 Company should also review and comment on any
10 alternative design day forecasting methodology proposals
11 submitted by either Staff or the DPA during the course of
12 any review of the Company’s Supply Plan.

13 **Item 14.** Chesapeake should continue to provide Staff and
14 DPA with periodic updates regarding any intervention by
15 the Company in Federal Energy Regulatory Commission
16 (“FERC”) proceedings and actions taken by the Company
17 on behalf of the Company’s ratepayers, including, but not
18 limited to, an enumeration of each issue and the position that
19 the Company is actively pursuing. The Company should
20 provide such periodic updates to Staff and DPA subject to
21 the Company’s ability to provide this information on a
22 confidential basis when appropriate.

23 **Item 15.** As agreed in prior dockets, the Company should
24 continue with the following practices: (a) the Company will
25 notify Staff and the DPA of any supplier refunds that may
26 impact the GSR charges; (b) the Company should continue
27 to include in future GSR applications an update on steps
28 taken to mitigate the effects of changes in gas costs; (c) the
29 Company should provide information on the total sales
30 volumes, costs, and margins by month for Interruptible Gas
31 Transportation sales as part of its GSR applications; and (f)
32 the Company will calculate the impact on its proposed GSR
33 rates had a thirty-year average degree days been used and
34 provide such information as part of the discovery process,
35 when and if requested.

36 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

37 **A.** Yes, it does.